Raquel J. Webster
Senior Counsel

July 25, 2018

BY HAND DELIVERY AND ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 4809 - 2019 Standard Offer Service Procurement Plan
2019 Renewable Energy Standard Procurement Plan
National Grid Rebuttal Testimony

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed ten (10) copies of the Rebuttal Testimony of Stephen A. McCauley in response to the July 2, 2018 memorandum of Daymark Energy Advisors, Inc. on behalf of the Rhode Island Division of Public Utilities and Carriers regarding the Company's proposed Standard Offer Service Procurement Plan and Renewable Energy Standard Procurement Plan for 2019.

I have also enclosed a Motion for Protective Treatment of Confidential information pursuant to Rhode Island Public Utilities Commission Rule 1.2(g) and R.I. Gen. Laws § 38-2-2(4)(B) (Motion). As noted in the enclosed Motion, National Grid respectfully requests that the PUC preliminarily grant National Grid's request for confidential treatment pursuant to Rule 1.2 (g)(2) pending the PUC's ruling on the Motion.

Thank you for your attention to this filing. If you have any questions, please contact me at 781-907-2121.

Very truly yours,

Raquel J. Webster

Enclosure
cc: Docket 4809 Service List
Leo Wold, Esq.
Jon Hagopian, Esq.
John Bell, Division
Al Mancini, Division

[1] The Narragansett Electric Company d/b/a National Grid (Narragansett or the Company).

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Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

Joanne M. Scanlon

July 25, 2018
Date

Docket No. 4809 - National Grid – 2018 Standard Offer Service (SOS) and Renewable Energy Standard (RES) Procurement Plans
Service List updated 7/11/18

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

2019 Standard Offer Supply Procurement Plan and
2019 Renewable Energy Standard Procurement Plan **Docket No. 4809**

NATIONAL GRID'S REQUEST FOR PROTECTIVE TREATMENT OF CONFIDENTIAL INFORMATION

National Grid[1] respectfully requests that the Rhode Island Public Utilities Commission (PUC) provide confidential treatment and grant protection from public disclosure certain confidential, competitively sensitive, and proprietary information submitted in this proceeding, as permitted by PUC Rule 1.2(g) and R.I. Gen. Laws § 38-2-2(4)(B). National Grid also respectfully requests that, pending entry of that finding, the PUC preliminarily grant National Grid's request for confidential treatment pursuant to Rule 1.2 (g)(2).

I. BACKGROUND

On July 25, 2018, National Grid filed with the PUC the Rebuttal Testimony of Stephen A. McCauley (Rebuttal Testimony) in response to the July 2, 2018 Memorandum of Daymark Energy Advisors, Inc. (Daymark) on behalf of the Rhode Island Division of Public Utilities and Carriers (the Division). The Rebuttal Testimony includes one Attachment, titled, "Use of Reverse Auctions for Standard Offer Service" (Attachment 1). National Grid prepared Attachment 1, which summarizes the Company's study of and findings regarding the reverse auction procurement method. For the reasons described below, National Grid respectfully

[1] The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

requests confidential treatment of the confidential (un-redacted) version of Attachment 1 because it includes competitively sensitive commercial information regarding the number of bidders in the Company's solicitations and details regarding the competitiveness of bids for such solicitations.

II. LEGAL STANDARD

The PUC's Rule 1.2(g) provides that access to public records shall be granted in accordance with the Access to Public Records Act (APRA), R.I. Gen. Laws § 38-2-1 *et seq.* Under the APRA, all documents and materials submitted in connection with the transaction of official business by an agency is deemed to be a "public record," unless the information contained in such documents and materials falls within one of the exceptions specifically identified in R.I. Gen. Laws § 38-2-2(4). Therefore, to the extent that information provided to the PUC falls within one of the designated exceptions to the public records law, the PUC has the authority under the terms of APRA to deem such information to be confidential and to protect that information from public disclosure.

Rhode Island General Laws§ 38-2-2(4)(B) provides that the following types of records shall not be deemed public:

> Trade secrets and commercial or financial information obtained from a person, firm, or corporation which is of a privileged or confidential nature.

The Rhode Island Supreme Court has held that this confidential information exemption applies where disclosure of information would likely (1) impair the Government's ability to obtain necessary information in the future; or (2) cause substantial harm to the competitive position of the person from whom the information was obtained. Providence Journal Company v. Convention Center Authority, 774 A.2d 40 (R.I. 2001).

The first prong of the test is satisfied when information is voluntarily provided to the governmental agency and that information is of a kind that would customarily not be released to the public by the person from whom it was obtained. Providence Journal, 774 A.2d at 47.

III. BASIS FOR CONFIDENTIALITY

The Company requests confidential treatment of the un-redacted version of Attachment 1 because this document includes competitively sensitive commercial information regarding the number of bidders in the Company's solicitations and details regarding the competitiveness of bids for such solicitations. Disclosing this information to the public could harm the competitiveness of the Company's solicitations, and harm customers. For example, if the solicitation and bid details in Attachment 1 were disclosed to the public, potential suppliers could learn details regarding the number of bidders in the Company's solicitations, adjust their bid strategy, and offer less competitive bids. Similarly, potential suppliers could identify the difference between the lowest two bids for transactions, which could result in them raising their bids in future requests for proposals. Both of these scenarios would harm the Company's customers.

IV. CONCLUSION

Accordingly, for the foregoing reasons, the Company respectfully requests that the PUC grant this motion for protective treatment of Attachments 1 to the Rebuttal Testimony.

WHEREFORE, the Company respectfully requests that the PUC grant this Motion for Protective Treatment of Confidential Information.

Respectfully submitted,

NATIONAL GRID

By its attorney,

Raquel J. Webster (RI Bar #9064)
National Grid
40 Sylvan Road
Waltham, MA 02451
(781) 901-2121

Dated: July 25, 2018

REBUTTAL TESTIMONY

OF

STEPHEN A. MCCAULEY

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I. Introduction

Q. Please state your name, place of employment, and business address.

A. My name is Stephen A. McCauley. I work at National Grid USA Service Company, Inc. (National Grid), and my business address is 100 E. Old Country Road, Hicksville, New York 11801.

Q. Have you previously filed testimony in this proceeding?

A. Yes.

II. Purpose of Rebuttal Testimony

Q. What is the purpose of this rebuttal testimony?

A. The purpose of this rebuttal testimony is for The Narragansett Electric Company d/b/a National Grid (the Company) to respond to certain statements and recommendations in the July 2, 2018 Memorandum of Daymark Energy Advisors, Inc. (Daymark) on behalf of the Rhode Island Division of Public Utilities and Carriers (the Division) regarding the Company's proposed Standard Offer Service (SOS) Procurement Plan (2019 SOS Plan) and Renewable Energy Standard (RES) Procurement Plan (2019 RES Plan) for 2019.

III. Response to the Division

Q. In its Memorandum, the Division states that the Company proposes to modify the Full Requirement Service contract for the Residential and Commercial Groups. Would you please respond to this statement and clarify which customer groups are included in the Company's proposal?

A. In the 2019 SOS Plan, the Company proposes to modify the Full Requirement Service contract by removing capacity charges from the supplier's responsibility for all three customer groups: Residential, Commercial, and Industrial. Under this proposal, the supplier will no longer include capacity in the fixed $/MWh price but will, instead, pass through the capacity charges it receives from the ISO-NE to the Company without any markup for margin or risk.

Q. The Industrial Group has the lowest capacity risk premium. Why does the Company propose this modification to the Full Requirement Service contract for the Industrial Group?

A. There are several reasons. First, the modification to the Full Requirements Service contract will provide the industrial customers with the same benefits afforded to the residential and commercial customers. The modification will remove risk premiums associated with capacity from the suppliers' bid prices. The contract modification may also increase bidder participation in the Company's SOS solicitations, which could lead to lower prices. Second, it is less complicated for the SOS suppliers and the Company to

utilize only one type of Full Requirements Service product. The Company executes one Master Power Agreement with each supplier to execute the awarded transactions. Including two types of Full Requirements Service products (one with and one without capacity) would be cumbersome and administratively difficult to maintain. In addition, suppliers would be required to maintain pricing models for each of the products, which may be burdensome and could lead to a focus on just the Residential and Commercial Groups. Two types of Full Requirements Service products could also result in errors to the bids submitted by the suppliers.

Q. What are the capacity risk premiums for the three customer groups?

A. The Company engaged Concentric Energy Advisors, Inc. (Concentric) to quantify the capacity risk premiums in Full Requirement Services contracts. Concentric calculated the capacity risk premiums included in the Company's January 10, 2018 Request for Proposals (RFP). The capacity risk premiums for the three customer groups were as follows: Industrial Group: $0.30/MWh for a three-month period; Commercial Group: $3.33/ MWh for a 24-month period; and Residential Group: $2.56 / MWh for a 24-month period.

Q. Why is the capacity risk premium lower for the Industrial Group than for the Residential and Commercial Groups?

A. Capacity risk premiums in the Full Requirement Service contracts and the Company's SOS procurement plans vary because of a number of factors. The time between a RFP and a settlement month impacts capacity risk premiums. A narrowing of the time between RFP and settlement month will lower the capacity risk premium because the settlement inputs can be estimated with greater accuracy. The magnitude of the underlying Net Regional Clearing Prices also impacts the capacity risk premiums. Higher priced capacity auctions will result in higher capacity risk premiums. Finally, the load volatility specific to each customer group will impact the capacity risk premiums.

The Industrial Group's capacity risk premium is lower than the other groups in the January 10, 2018 RFP for several reasons. The Industrial Group's transaction is for only a three-month period starting approximately 75 days after the RFP. Shorter durations between RFP bid date and a settlement month reduces capacity risk premium. The 24-month period for the Residential and Commercial Groups have much longer durations between the RFP bid date and settlement month. Another reason is that the Industrial Group's transactions are for the months April through June, which normally have low load volatility. This low load volatility three-month period will decrease the risk compared to the Residential and Commercial Groups which include load volatility over a 24-month period. Finally, two of the three months in the Industrial Group's transaction

are from the lower-priced eighth Forward Capacity Auction period. Higher priced capacity auctions will result in higher capacity risk premiums, and the Residential and Commercial Groups' 24-month period includes all twelve months of the highest-priced ninth Forward Capacity Auction. Only two of the 24-month Residential and Commercial Group's period is at the lower-priced eighth Forward Capacity Auction.

Although Concentric calculates a lower capacity risk premium for the Industrial Group, the Company believes that it is due primarily to the low load volatility and lower auction prices for the period analyzed. The Industrial Group's capacity risk premium would be higher during higher load volatility months and higher capacity price periods. Therefore, the Company believes that the Industrial Group would also benefit by modifying the Full Requirements Service contracts as described above.

Q. The Division recommends that the Company perform an analysis to determine whether the Full Requirements Service contract modification achieves lower prices. Do you agree with this recommendation?

A. If the PUC approves the Company's proposal, the Company intends to maintain the Concentric model for each RFP to calculate the risk premium and estimated capacity costs. The Company will also track the estimated capacity costs included in SOS rates and the reconciled capacity costs. The Company can provide this information as part of the informational Standard Offer Reconciliation Report or in some other fashion.

However, the Company would like to clarify that its proposal will remove the capacity risk premium and may increase supplier participation, both of which may lower costs. Notably, the Company's proposal to modify Full Requirements Service contracts may not necessarily result in the lowest costs for each particular transaction.

As described in the Direct Testimony of Stephen A. McCauley and in Concentric's report entitled *Rhode Island Full Requirements Service Risk Premiums*, suppliers must convert the estimated capacity costs to a $/MWh format to include in a SOS bid. A supplier may incur a financial loss if the actual capacity costs are higher than the expected costs it included in its bid. This could occur, for example, if a supplier's load expectation at the time of an RFP is higher than the actual load. The supplier will incur a financial loss because it will under-recover the full amount for capacity through its winning bid price. A financial loss for a supplier results in a lower cost to our customers.

However, if actual load is higher than the supplier's expected load at the time of the RFP, the supplier will realize a financial gain because it will have recovered through its winning bid more than its owed amount for capacity. This results in a higher cost to our customers.

For example, it is possible that at the time of an RFP, the supplier would have calculated July's capacity as $40/MWh based on its expected load. The reconciled July capacity price may be $45/MWh because the month was much cooler than expected, resulting in lower actual load. This is an example of the actual capacity price exceeding the estimated capacity price. However, the opposite could have occurred. The reconciled July capacity price may be $30/MWh because the month was much hotter than expected, resulting in higher actual load. This is an example of the estimated capacity price exceeding the actual capacity price.

Financial losses for suppliers may lead to a lower overall cost for customers for a particular transaction or period, but financial losses may lead to higher customer costs over the long term. As suppliers experience financial losses, they will likely include higher risk premiums in future solicitations. It is also possible that suppliers may exit the market if they experience significant financial losses or if they believe that the risk of financial loss is too high. This will lead to decreased competition, which could result in higher customer costs.

Therefore, the Company clarifies that the proposal to modify the Full Requirements Service contract will remove risk premium from supplier bids and, therefore, may result in increased and more competitive participation in its RFPs. However, the Company's proposal may not result in the lowest overall costs for each transaction.

Q. The Division recommends that the Company modify its transfer price calculation proposal. Does the Company accept this recommendation?

A. Yes. In the 2019 RES Plan, the Company proposes to modify the valuation of New Renewable Energy Certificates (RECs) from the Long-Term Contracting Standard for Renewable Energy and Distributed Generation Standards Contracts Act (collectively, Long-Term Renewable Contracts) and the Renewable Energy Growth (RE Growth) Program that are used to satisfy the Company's RES obligations. The Company proposes to use the average sales price of excess New RECs transacted in the market during a quarter as the transfer price for New RECs. If there are no sales of excess New RECs in a quarter, the Company will determine the actual value of these RECs for the purpose of reconciling the LTC Recovery Factor and the RE Growth Factor by using the same procedure established and approved in Docket No. 4338.

The Division recommends that if the average sales price of excess New RECs transacted in the market during a quarter differs more than 20% from the average market price procedure established and approved in Docket No. 4338, the Company shall average the two methods to create a transfer price for the purpose of reconciling the LTC Recovery Factor and the RE Growth Factor.

As noted above, the Company accepts this recommendation. However, the Company recognizes that the average sale price may not reflect market prices in the event there are limited potential buyers for the RECs. If the difference between the average sales price and the established average market price procedure is significant, the Company will consult with the Division to decide whether it should use only one transfer pricing method.

Q. The Division notes that that the PUC order the Company to examine use of reverse auctions in its procurement? Specifically, the Division notes that the PUC could order a study, a pilot, or open a docket to examine alternative procurement strategies. What is the Company's response to this recommendation?

A. Attachment 1 is a study conducted by the Company entitled Use of Reverse Auctions for Standard Offer Service. The Company does not support a change to a reverse auction platform for the reasons stated in Attachment 1.

Q. Does the Company believe that a pilot is suitable way to assess reverse auctions?

A. No. Although it is possible for the Company to perform a pilot to assess reverse auctions, the Company respectfully urges the PUC to only approve a pilot that is designed to shield customers from any reverse auctions costs that are in excess of costs associated with the current RFP process.

IV. Conclusion

Q. Does this conclude your rebuttal testimony?

A. Yes.

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Use of Reverse Auctions for Standard Offer Service

The Narragansett Electric Company d/b/a National Grid (the Company) has conducted a study of the reverse auction procurement method and has concluded that the adoption of a reverse auction procurement method would not result in reduced Standard Offer Service (SOS) costs compared to the Request for Proposals (RFPs) method. This study includes the Company's reasoning, additional support from an ISO-NE discussion paper, and an analysis of actual bids submitted in the Company's RFPs.

Reverse Auctions:

As described in the July 2, 2018 Memorandum of Daymark Energy Advisors, Inc. in Docket 4809, a reverse auction allows suppliers to submit bids online for the Company's transactions. Each transaction has a time limit, and, as the reverse auction progresses, each supplier can update its bid after reviewing the current low bid. Unlike the RFP process in which suppliers are expected to submit their best bids once, a reverse auction allows suppliers to continually adjust their bids in response to the bid competition.

National Grid's Support of RFP Process:

Although a reverse auction may identify the lowest cost supplier, a reverse auction may not necessarily produce the lowest cost option compared to the RFP method. Suppliers in an RFP must engage in guesswork in developing their bids because they do not know the identity, the number, or the strength of their competitors. It is precisely because suppliers lack detailed information about their competition and are required to base their bids on guesswork which should result in lower prices. The combination of lack of information regarding their competition and the opportunity to only bid once likely ensures that suppliers in an RFP will provide their best (lowest) bids. On the other hand, in a reverse auction involving a limited number of bidders, a supplier may win a bid block without submitting its most competitive price. For example, in an RFP, a supplier must submit its best price once (e.g., $50/MWh) to win a bid block. In contrast, in a reverse auction, this particular bid block may not have attracted many bidders, and the supplier may win at $52/MWh simply because other bidders decided to no longer participate after the last bid submitted reached $52/MWh.

ISO-NE Discussion Paper:

In July 2016 the ISO-NE released a discussion paper comparing a Descending Clock Auction (reverse auction) and a Sealed Bid Auction (RFP).[1] The ISO utilizes a hybrid of both types of procurement options in its Forward Capacity Market, which awards billions of dollars annually to capacity resources. This discussion paper highlights the pros and cons of each procurement method. ISO-NE evaluated these procurement methods by four categories and concluded that the best procurement method varied by category:

[1] https://www.iso-ne.com/static-assets/documents/2016/07/20160711-dca-v-sealed-bid.pdf

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Issue	Descending Clock Auction	Sealed Bid Auction
Minimizing exercise of market power		X
Minimize bid/offer mis-pricing errors by participants	X	
Maintaining confidentiality of resources' bid/offer prices		X
Administrative simplicity		X

The ISO-NE discussion paper states that "there is no 'single best' auction format; it depends on the circumstances and what considerations figure most prominently in the context of the auction."[2] It is the circumstances of SOS and the Full Requirement Service product that makes the RFP process more appropriate than the reverse auction.

Per the ISO-NE discussion paper, a reverse auction is preferred in an environment with a large numbers of potential bidders relative to the quantity of awards. It is also preferred when the bidders have considerable uncertainty regarding the future costs of delivering the goods they sell (such as the uncertainty facing a generator participating in a Forward Capacity Auction for a commitment three years in the future). In contrast, a RFP procurement is preferred in an environment where there are few potential bidders relative to the quantity to be awarded. It is also preferred when the bidders accurately know their future costs of delivering the goods they sell.

The environment for SOS and Full Requirements Service contracts is more similar to the preferred environment described in the ISO-NE discussion paper for the RFP. There is a small universe of suppliers that provide Full Requirements Service in New England, as the section analyzing RFP bid results will illustrate. Several years ago, the Company proposed, and the Rhode Island Public Utilities Commission (PUC) approved, a contingency plan in the event that the Company did not receive a sufficient number of bids for transactions because participation was very limited in some RFPs.[3] Also, with Full Requirements Service contracts, the bidders have a good indication of their final costs by hedging energy futures and including risk premiums to protect for costs that cannot be hedged.

Besides the market environment that favors the RFP process, the potential exercise of market power in reverse auctions is the Company's main objection to reverse auctions because of the limited number of bidders for the Full Requirements Service solicitations. As noted in the ISO-NE discussion paper:

[2] *See* https://www.iso-ne.com/static-assets/documents/2016/07/20160711-dca-v-sealed-bid.pdf at page 8.
[3] *See* Docket No. 4490

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> *In general, pure "open" auctions (i.e., pure descending and ascending clock auctions) are potentially more susceptible to this kind of market power. This is because in addition to the information available before the auction about the potential number of bidders competing to meet demand, a pure DCA format allows a bidder to observe exactly when its close competitors exit, and therefore when its bid may be pivotal and set the price.* ***Further, if the total supply in the auction is tighter than expected, bidders can observe this as the pure DCA proceeds and adjust their bidding strategies, potentially setting price above their true cost*** *(in the absence of other mitigation rules, that is).*[4]

Analysis of RFP Bids:

A key tenet of reverse auction proponents is that bidders will continue to submit bids below what they would have bid in a RFP process, which requires their single, best bids. This means that the second lowest bidder in the RFP method, which submitted its best bid in the RFP because it had only one opportunity to win, would need to lower its bid below its best bid to drive the winning bidder to continue to lower its prices. Although it is possible that the second lowest bidder may have a small cushion in its RFP bid that would allow it to lower it in a reverse auction, it is likely that the cushion is not very sizable. If it were sizable, the bidder would have lowered it in its RFP bid to improve the competitiveness of its offer because it only has one opportunity to win.

The Company has analyzed its last 98 transactions and focused on the differences between the second lowest bid and the lowest bid.[5] In aggregate, the winning bidder through the RFP process was [redacted], or [redacted] lower than the second lowest bidder. The winning bidder was approximately [redacted] million less than the second lowest bidder ([redacted] billion vs. [redacted] billion). For the reverse auction to have lower costs than the RFP method, the second lowest bidders, which already submitted their best bid through the RFP process, would need to lower their bids by an additional [redacted]. The winning bidders would then have to decrease their bids further to incorporate the reverse auction vendor fee, which likely is at least $0.10/MWh, to create lower costs than the RFP method. This chart compares the second lowest bidders to various decreases in bids.

[4] See https://www.iso-ne.com/static-assets/documents/2016/07/20160711-dca-v-sealed-bid.pdf at page 4. (Emphasis added).
[5] The 98 transactions are from the RFPs awarded May 13, 2015 through July 11, 2018.

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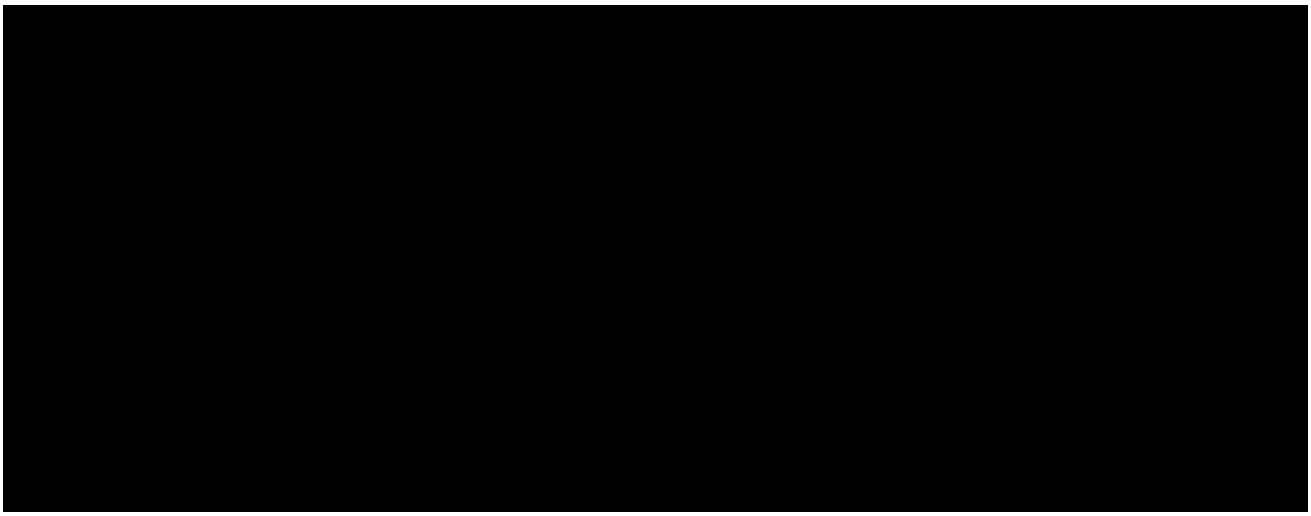

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Each blue diamond in the above graph is the difference between the winning bid and the second lowest bid for all 98 transactions. The differences are shown by RFP bid date. For example, the July 11, 2018 RFP (far right) has eight diamonds for each transaction in that RFP and the difference in winning bid and second lowest bid ranges from [redacted] [redacted].

As stated in the ISO-NE discussion paper, RFP procurements are preferred in an environment where there are few potential bidders relative to the quantity to be awarded. Reviewing the Company's RFPs for the last three years, of the 98 transactions analyzed, [redacted] And, prior to the period of these 98 transactions, there were increased instances of [redacted] bidders for transactions which is why the Company

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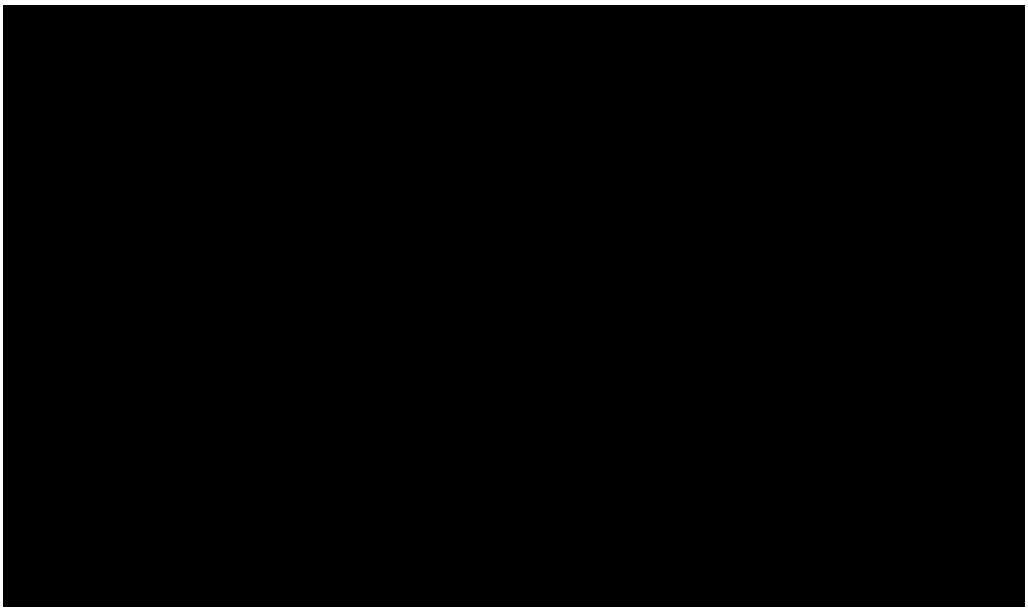
proposed, and the PUC approved, contingency plans in the event that there is insufficient competition.



The Company concludes the following from its analysis of RFP bids:

- The second lowest bidders provided their best offers through the RFP process because they only have one opportunity to win;
- The second lowest bidders are unlikely to decrease, in aggregate, their best RFP bids by at least [redacted] in a reverse auction to pressure the winning bidders to submit bids below the best bids submitted through a RFP;
- There are not large numbers of potential bidders for Full Requirements Service contracts;
- The Company does not believe the reverse auction will result in lower costs for our customers.

This analysis of bids and the incompatibility of Full Requirements Service with reverse auction is not a suggestion that the Company change its portfolio from Full Requirements Service. Full Requirements Service contracts continue to provide the benefits that are described in the 2019 SOS Plan and this product type is recommended in the Division's Memorandum.

Reverse Auctions are Incompatible with Monthly Bids:

Standard Offer Service transactions for the Residential and Commercial Groups have durations of six months with a different price for each month. Transactions for the Industrial Group have durations of three months with a different price for each month. The Company has twice proposed a change to a flat bid price format, which means the entire duration would have a single price. The PUC did not approve either proposal. In Order No. 22677 in Docket 4605, the PUC noted that 'a review of the evidence indicates that flat bids are more expensive than shaped bids.'

With a reverse auction, bids can be continually improved until a specific deadline. As explained by vendors that provide reverse auction technology, suppliers are bidding up to the last moment before the deadline. They will frequently submit bids within the last few seconds. With Residential or Commercial Group transactions, suppliers would either attempt to modify all six monthly prices prior to the deadline, or adjust a subset of prices. Either way, it appears cumbersome and not as efficient as the use of a flat bid price in a reverse auction. However, as noted by the PUC in Order No. 22677, the flat bid prices may be more expensive. Therefore, savings from a reverse auction may be lost by a transition to flat bid prices.

Additional Considerations:

Vendors of reverse auctions have financial incentives to promote their products and obtain regulatory mandates for their use. However, while they claim to result in lower costs, they do not provide any proof or evidence. Additionally, a reverse auction process is likely to increase the costs to administer Standard Offer Service. The company conducting the reverse auction requires a fee, and the electric distribution companies will incur the same costs to provide Standard Offer Service once the auction process is complete.

Conclusion:

The Company does not support the adoption of a reverse auction model because the potential benefits of the platform could be outweighed by consequences such as not receiving the lowest price possible and the exercise of market power. As demonstrated by the Company's study and analysis of the reverse auction procurement method, suppliers in the current RFP process provide their best (lowest price) through a competitive process. Additionally, the monthly pricing structure of the Company's SOS transactions does not easily lend itself to a reverse auction structure where flat bid prices are used. The ISO-NE discussion paper compares the two procurement methods, and the characteristics of SOS procurement dictates that the RFP method would produce the best results. The Company's analysis of its historical bids supports this conclusion, and no data or evidence has been provided by reverse auction vendors that would contradict these conclusions. For these reasons, the Company recommends that the PUC maintain the current RFP model and not open a future docket to review procurement options. The Company also recommends that the PUC not order a pilot, which may result in increased costs to customers.